

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Competitive Product Prices  
Global Plus 1D Contracts (CP2016-193)  
Negotiated Service Agreements

Docket No. CP2017-231

PUBLIC REPRESENTATIVE COMMENTS ON POSTAL SERVICE  
NOTICE OF FILING A FUNCTIONALLY EQUIVALENT GLOBAL PLUS 1D  
NEGOTIATED SERVICE AGREEMENT

(August 7, 2017)

I. INTRODUCTION

The Public Representative hereby provides comments pursuant to the Commission Notice initiating docket(s).<sup>1</sup> In that Notice, the Commission established Docket No. CP2017-231 to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Notice of filing an additional Global Plus 1D Negotiated Service Agreement (Agreement).<sup>2</sup>

II. BACKGROUND

Customers for Global Plus 1D contracts include "Postal Qualified Wholesalers (PQWs) and other large businesses that offer mailing services to end users for shipping articles via International Priority Airmail, International Surface Air Lift, Priority Mail

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<sup>1</sup> Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, August 1, 2017 (Commission Notice).

<sup>2</sup> Notice of the United States Postal Service of Filing a Functionally Equivalent Global Plus 1D Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, July 31, 2017 (Postal Service Notice).

Express International, Priority Mail International, and/or Commercial ePacket service.”  
Postal Service Notice at 4.

Prices and classifications “not of general applicability” for Global Plus 1 contracts were previously established by Governors’ Decision No. 08-8.<sup>3</sup> *Id.* at 1. In Order No. 85, the Commission authorized the addition of the Global Plus 1 product to the competitive product list and determined that the Global Plus 1 contracts filed in Docket Nos. CP2008-9 and CP2008-10 should be included within the product.<sup>4</sup> On June 29, 2016, the Commission approved the first Global Plus 1D contract and designated the contract subject of Docket No. CP2016-193 as the baseline agreement for the Global Plus 1D product.<sup>5</sup>

The Agreement relies on the pricing formula established in Governors’ Decision No. 11-6.<sup>6</sup> Postal Service Notice at 4. The Postal Service seeks to add the Agreement to the Global Plus 1D product grouping on the competitive products list, asserting that it is functionally equivalent to the baseline agreement. *Id.* at 3-5. It further asserts that the Agreement is in compliance with 39 U.S.C. § 3633 and therefore should be added to the Global Plus 1D product grouping. *Id.* at 6-7.

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<sup>3</sup> Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Global Plus Contracts, May 28, 2008 (Governors’ Decision No. 08-8). See Docket No. CP2008-8, Notice of United States Postal Service of Governors’ Decision Establishing Prices and Classifications for Global Plus Contracts, June 2, 2008.

<sup>4</sup> Docket Nos. CP2008-8, CP2009 and CP2010, Order Concerning Global Plus Negotiated Service Agreements, June 27, 2008 at 8-11 (Order No. 85).

<sup>5</sup> Docket No. CP2016-193, Order Adding Global Plus 1D to the Competitive Product List and Approval of Designation as Baseline Agreement, June 29, 2016 (Order No. 3395).

<sup>6</sup> Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates, March 22, 2011 (Governors’ Decision No. 11-6). See Postal Service Notice, Attachment 3.

The Postal Service intends the effective date of the Agreement to be August 20, 2017. *Id.* at 3. The contract is scheduled to expire one year after its effective date, subject to early termination provisions. *Id.* at 3 and *Id.*, Appendix 1 at 4.

### III. COMMENTS

The Public Representative has reviewed the Postal Service Notice, the Agreement, the financial model filed under seal, as well as all other documentation attached to the Postal Service Notice. The Public Representative has also reviewed the documentation filed with Docket No. CP2016-193, which serves as the baseline agreement for Global Plus 1D contracts. Based upon that review, the Public Representative concludes that the Agreement is functionally equivalent to the baseline agreement. In addition, it appears that the negotiated prices in the Agreement should generate sufficient revenues to cover costs.

*Functional Equivalency.* The Postal Service asserts that the Agreement and the baseline contract subject of Docket No. CP2016-193 share similar cost and market characteristics and incorporate “the same cost attributes and methodology.” Postal Service Notice at 4-5. The Postal Service, however, does identify a number of differences between the Agreement and the baseline contract. *Id.* at 5-6. Some of these differences are specific to the customer (e.g., the customer’s name and address). *Id.* at 5. Other differences between the Agreement and the Global Plus 1D baseline agreement include revisions to numerous existing articles, as well as removal, addition and renumbering of some articles; revision to annexes and the addition of Annex 3. *Id.*

at 5-6. The Public Representative agrees with the Postal Service that the identified differences “do not alter the contracts’ functional equivalency”. *Id.* at 4.

The Public Representative concludes that the Agreement exhibits similar cost and market characteristics to the baseline contract. The Public Representative agrees that the Agreement is functionally equivalent to the baseline agreement.

*Requirements of 39 U.S.C. § 3633.* Pursuant to 39 U.S.C. § 3633(a), the Postal Service’s competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service.

As presented, the Postal Service’s financial model does not directly address whether the addition of the Agreement to the Global Plus 1D product grouping will result in the product as a whole covering costs as required by 39 U.S.C. § 3633(a)(2). However, the Postal Service’s financial model indicates that the negotiated rates in the Agreement will generate sufficient revenue to cover its attributable costs. Therefore, the addition of the Agreement to the Global Plus 1D product grouping should not cause the product’s cost coverage to fall below 100 percent - assuming the product currently covers its attributable costs.<sup>7</sup> Under this assumption, the addition of the Agreement should allow the Global Plus 1D product to continue to comply with 39 U.S.C. § 3633(a)(2), and should not result in competitive products being subsidized by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Moreover, the Global

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<sup>7</sup> In the FY 2016 Annual Compliance Determination (ACD) Report, the Commission determined that the Global Plus 1D product covered its attributable cost. See Docket No. ACR2016, *Annual Compliance Determination*, March 28, 2017, at 85-86.

Plus 1D product should improve the likelihood that competitive products collectively contribute an appropriate share to the Postal Service's institutional costs, consistent with 39 U.S.C. § 3633(a)(3). The Commission will have an opportunity to review the contract's financial results in the future ACD Report for compliance with 39 U.S.C. § 3633(a).

#### IV. CONCLUSION

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

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